

MULTIPHASE CONSOLIDATION AND EXPANSION PROJECT FOR THE EDUCATION, HEALTH AND NUTRITION PROGRAM (PROGRESA) - PHASE I

(ME-0244)

EXECUTIVE SUMMARY

Borrower: Nacional Financiera, S.N.C. (NAFIN)

Guarantor: Government of the United Mexican States

Executing agency: Department of Social Development (SEDESOL)

	Phase I (three years)	Phase II (three years)
Amount and source:	IDB: (OC) US\$1.000 billion	US\$1.000 billion
	Local: <u>US\$1.377 billion</u>	<u>US\$1.377 billion</u>
	Total: US\$2.377 billion	US\$2.377 billion

Financial terms and conditions:

Amortization period:	25 years
Grace period:	3 years
Disbursement period:	3 years
Interest rate:	variable
Supervision:	1% on amount of loan

Objectives: The project's general objective is to increase human capital accumulation among families living in extreme poverty, by improving opportunities in education, health and nutrition.

The specific objectives are as follows: (i) to reinforce interventions in the areas of education, health and nutrition, in order to ensure their medium- and long-term impacts; (ii) to adapt program design in order to expand coverage to the urban sector; (iii) to enhance the program's operating efficiency, particularly in the monitoring and audit areas; and (iv) to continue with independent impact assessment.

Description: The proposed multiphase project has an estimated cost of US\$4.755 billion, divided into two phases of US\$2.377 billion each, to be implemented over a period of approximately six years. The multiphase modality is justified for the following reasons: (i) expansion of the program involves applying project designs adapted for the urban sector and upper secondary education, the impact of which will need to be evaluated during the first phase of the

operation; and (ii) consolidation of the program requires improved operating efficiency, to support the expansion of coverage to urban areas.

1. Component 1. Increase in human capital among populations living in extreme poverty (US\$2.35 billion in phase I)

This component will help consolidate targeted interventions in education, health and nutrition, in the rural localities where the program is already operating, and will finance the first phase of expansion to semi-urban and urban localities. The target population consists of households living in extreme poverty, as defined by a national poverty line based on per-capita household consumption. The beneficiaries will be households that qualify under the targeting criteria described below, in localities where access to primary education and basic health services can be verified. Actions will target the family in an integrated way, and mothers will be the official recipients of monetary support payments and inputs. Families eligible as program beneficiaries will receive support payments on condition that they assume specific co-responsibilities in relation to health and education.

The program will provide eligible support payments in decreasing amounts for new households in semi-urban, urban and rural localities, and to families qualifying through re-certification. This component will fund technical assistance and training, along with materials and equipment for the selection of localities, identification and incorporation of new families, and processes involved in the re-certification of current beneficiary families.

As regards enhancing the program's operating efficiency, the monitoring, operational audit and social communication areas will all be strengthened. Implementation of the institutional information system for the operation of PROGRESA (SIIOP) of monitoring indicators will be completed and the set of performance and evaluation indicators and indicators of the IMSS-Solidaridad and the SSA will be incorporated into the SIIOP. In addition, the Sentinel Points Operational Monitoring Program, consisting of a comprehensive bimonthly audit of the program's operational aspects, will be applied every two months. The component will develop a program communication strategy to foster a greater sense of ownership of the program by beneficiaries and other stakeholders. Information and training mechanisms on the program's rationale will be developed for the communities to be incorporated into it.

2. Component 2. Program evaluation and adaptation (US\$9 million in phase I)

This component will undertake diagnostic studies and make changes to the program's operating regulations in order to: (i) improve its operating efficiency; (ii) adapt its urban design; (iii) assess the impact of urban interventions, and medium-term impacts in rural areas; (iv) evaluate and implement the National Master Points Model for selecting households; and (v) coordinate with other social programs run by the Department of Social Development (SEDESOL), in order to avoid duplication between different programs with similar objectives.

The Bank's country and sector strategy:

The Bank's strategy for Mexico in the social sectors entails supporting programs to reduce regional inequalities, income disparities and extreme poverty. Particular emphasis has been given to sectors and interventions that help speed up the process of human capital accumulation among the poorest (paragraph 1.29).

Justification for the Bank's involvement is based on the importance of PROGRESA in the strategy of the fight against poverty in Mexico itself and also region wide.

Environmental and social review:

Talks on health education currently being given address the topics of basic sanitation, including domestic hygiene practices, potable water and solid waste management. Attendance at these talks is compulsory for beneficiary mothers, and participation by fathers is also recommended. The Department of Health (SSA) and the Mexican Social Security Institute (IMSS) currently require basic health units to make an analysis of medical waste management and disposal practices. The SSA finances the following actions: (i) review and updating of medical and biomedical waste management and disposal manuals; (ii) training of health unit staff in the application of new standards to protect patients and health care staff; and (iii) purchase of new equipment for medical and biomedical waste management (paragraph 4.26).

Benefits:

The independent impact assessment carried out in late 2000 gave the following results:

- a. PROGRESA is reducing poverty and income inequality among the communities in which it is operating (paragraph 4.2).
- b. PROGRESA is cost-effective in transferring resources to the poorest of the poor (paragraph 4.3).
- c. Impact on education: in its first two years of operation, PROGRESA has successfully raised transition rates between primary and secondary school (paragraph 4.14).

- d. Impact on health: the evaluation reveals significant health improvements among beneficiary children and adults. There has also been a significant increase in the use of health services and public clinics for preventive health measures (paragraph 4.19).
- e. PROGRESA reduces child labor, without affecting adult labor market participation (paragraph 4.23).
- f. PROGRESA has enhanced the role of women in the community and in the home, especially in decision-making affecting family and child welfare (paragraph 4.24).

Risks:

There are risks involved in consolidating the single nationwide targeting instrument to reduce leakage and under-coverage caused by changes in the geographical distribution of beneficiaries. This operation will mitigate such risks by supporting analysis of the new targeting instrument and preparing a transition strategy.

Secondly, there are risks involved in extending PROGRESA to urban areas and upper secondary schooling. These will be mitigated through: (i) an ex ante evaluation of the design of the PROGRESA urban program; (ii) testing and ex post evaluation of the different introduction schemes; and (iii) a thorough analysis of education supply.

Lastly, with the passage of time, there are increasing risks from a relaxation of mechanisms for controlling and supervising the operation on the ground by stakeholders. This operation will mitigate such risks by strengthening: (i) existing program supervision instruments; (ii) mechanisms for early identification and solution of execution-related problems; (iii) information systems; and (iv) coordination between sectoral agencies (paragraph 4.27).

Special contractual clauses:

Prior to disbursement of project funding: (i) the borrower must sign one or more agreements with the United Mexican States containing, among other things: (a) the terms and conditions under which the borrower transfers the resources of the financing to the guarantor; and (b) the executing agency's obligation to carry out the activities provided for in the project and to ensure the participation of the participating entities; and (ii) the borrower must present a report—in connection with the National Master Points Model for the selection of beneficiary households—containing the methodological guidelines, econometric estimates and simulations of impacts on the geographical distribution of project beneficiaries resulting from changes introduced by the model.

Other contractual clauses:

The Bank may reimburse up to the equivalent of US\$40 million from the resources of the financing and retroactively recognize up to the equivalent of US\$10 million from the resources of the local contribution, provided conditions substantially similar to those established in the loan contract are met (paragraphs 3.21 and 3.22).

Conditions complied with by the borrower prior to approval of this operation: presentation to the Bank's satisfaction of PROGRESA 2001 operating regulations, which will be applied as project operating regulations and will govern project execution.

Poverty-targeting and social sector classification:

This operation qualifies as a social-equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). It also qualifies as a poverty-targeted investment (PTI), in view of its geographic and beneficiary targeting (paragraph 2.31).

Exceptions to Bank policy:

None.

Procurement:

The project does not involve civil works. Goods and services procurement will be carried out in accordance with Bank policies and procedures. International competitive bidding will be required in contracts for goods and related services in excess of US\$350,000, and consulting services for over US\$200,000. Goods and services procurement for smaller amounts will be subject to the procedures attached to the procurement plan (paragraph 3.14).